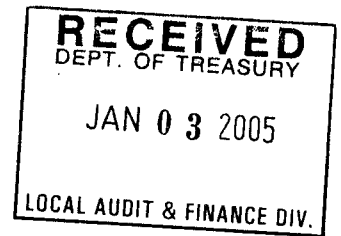


MIDDLE CITIES RISK MANAGEMENT TRUST

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Period Ended June 30, 2004

99-7-500



SECTION 3 FINANCIALS

Independent Auditor's Report

To the Board of Directors
Middle Cities Risk Management Trust

We have audited the accompanying balance sheet of Middle Cities Risk Management Trust as of June 30, 2004 and 2003 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Middle Cities Risk Management Trust at June 30, 2004 and 2003 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

As described in Note 1, Middle Cities Risk Management Trust has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

Plante & Moran, PLLC

July 16, 2004

Middle Cities Risk Management Trust

Management's Discussion and Analysis

This section of the Middle Cities Risk Management Trust's (the "Trust") annual financial report presents our discussion and analysis of the Trust's financial performance during the year ended June 30, 2004. Please read it in conjunction with the Trust's financial statements, which immediately follow this section.

Using this Annual Report

The Trust is a public entity self-insurance pool that provides property and liability coverages to its participating members. Membership is open to all school districts, selective district libraries, community colleges, and public school academies in the state of Michigan. This annual report consists of a series of financial statements. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the Trust. This is followed by the statement of cash flows, which presents detailed information about the changes in the Trust's cash position during the year.

Financial Overview

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplemental information.

The Trust is considered a special-purpose government engaged solely in business-type activities. The basic financial statements, which follow this section, provide both long-term and short-term information about the Trust's financial status. The Trust uses the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. These statements reflect only the risk carried by the Trust, which also includes any potential unrecoverable reinsurance claims. The three basic financial statements presented are as follows:

- Statement of net assets - This statement presents information reflecting the Trust's assets, liabilities, and net assets.
- Statement of revenues, expenses, and changes in net assets - This statement reflects the operating and nonoperating revenues and expenses for the previous two fiscal years. Operating revenues consist primarily of member contributions with the major sources of operating expenses being claims and claims adjustment expense, general and administrative expenses, and reinsurance costs. Nonoperating revenues consist primarily of investment income.
- Statement of cash flows - This statement is presented on the direct method of reporting, and reflects cash flows from operating activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the fiscal year.

Middle Cities Risk Management Trust

Management's Discussion and Analysis

Condensed Financial Information

The statements report the Trust's net assets and how they have changed. Net assets - the difference between the Trust's assets and liabilities - is one way to measure the Trust's financial health, or position. Over time, increases and decreases in the Trust's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. Summarized financial information follows:

NET ASSETS			CHANGES IN NET ASSETS		
As of June 30	2004	2003	Year Ended June 30	2004	2003
Total Assets	\$16,694,863	\$13,822,110	Total Revenue	\$10,681,200	\$9,864,499
Total Liabilities	\$6,650,164	\$4,177,200	Total Expenses	\$9,113,433	\$8,496,208
Net Assets	\$10,044,699	\$9,644,910	Increase in Net Assets	\$1,567,767	\$1,368,291

In addition to net assets, when assessing the overall health of the Trust, the reader needs to consider other nonfinancial factors such as the legal climate in the State, the general state of the financial markets, and the level of risk prevention undertaken by the Trust and its members.

The Trust cannot control the first two factors. However, since its inception, the Trust has been a leader in implementing aggressive risk prevention programs. It provides extensive training to its members in various areas of school district operations. It makes use of several advisory committees comprised of member employees holding job responsibilities related to the activities of the committee.

Condensed Comparative Financial Highlights

- Overall, the Trust's net assets increased by \$399,789, from \$9,644,910 to \$10,044,699, due to an increase in member contributions discussed below as well as a decrease in claim payments.
- Total revenue increased by \$816,701, from \$9,864,499 to \$10,681,200. Member contributions for insurance coverage premiums increased by approximately \$1,400,000 while investment income, including the change in the fair value of investments, decreased by \$342,649. In addition, there was a recovery from a third party of \$250,000 during the year ended June 30, 2003. There was no such recovery during the year ended June 30, 2004.

Middle Cities Risk Management Trust

Management's Discussion and Analysis

Condensed Comparative Financial Highlights (Continued)

- Risk management, underwriting, and other administrative expenses increased by \$142,387, from \$980,094 to \$1,122,481, due to increases in professional fees, general operating expenses, and other factors.
- Incurred claims and claims adjustment expenses were \$3,972,502 and \$3,655,760 for the years ended June 30, 2004 and 2003, respectively.
- Outside reinsurance costs increased by \$158,096, from \$3,860,354 to \$4,018,450.
- Reserves (reported net of estimated reinsurance recoveries), both reported and incurred but not reported, increased by \$2,172,056.
- Investment income of \$474,106 was earned this year compared to \$816,755 in the prior year. This decrease was a direct result of market interest rates during the current year.

Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments comprise the most significant numbers in the asset section of the Trust's statement of net assets.

Accordingly, the Board of Directors has established investment policies. The fundamental investment objectives are:

1. To maintain prudent credit standards for all investments;
2. To establish a strong foundation of investment positioned to perform well under current and anticipated future market conditions;
3. To set forth a disciplined buy/sell process for every security in the IMP portfolio;
4. To maximize return on cash assets while minimizing risks to principal and interest and to ensure that liquidity funds are available to respond to anticipated and unanticipated cash flow needs; and,
5. To minimize concerns for safety of cash and investments.

Middle Cities Risk Management Trust

Management's Discussion and Analysis

Cash and Cash Equivalents and Investments (Continued)

Investment guidelines for U.S. equities provide for investing in a broadly diversified portfolio of U.S. dollar dominated debt securities issued by the U.S. government, agencies, states, localities, and U.S. domiciled companies. All debt securities must have a quality rating of BAA/BBB or above. The overall portfolio quality rating should be A+ or above.

Investment guidelines for cash and cash equivalents provide that managers using cash and cash equivalents in their portfolio are expected to adhere to the American Banking Association investment standards on security type, quality, and maturity for short-term investment funds (STIF), except for money market funds.

Currently, all investments of the Trust are professionally managed and invested consistent with the safeguards and diversity which aims to, at a minimum, preserve overall portfolio principal. Investments are held in trust by Comerica Bank. Asset Allocation Management acts as the investment portfolio manager.

Reserves for Unpaid Claims

The Trust's most significant numbers in the liability section of the statement of net assets are the reserves for reported and incurred but not reported claims and claim adjustment expenses. Tillinghast, a Towers Perrin Company, conducts an independent actuarial analysis to determine the adequacy and reasonableness of such reserves.

Real Estate Investment Joint Venture

Earlier in 2003-2004, the Board of the Middle Cities Risk Management Trust entered into a joint venture with its parent, Middle Cities Education Association, and an unaffiliated third party, the North Central Association/Commission on Accreditation and School Improvement for the purpose of purchasing land and developing/constructing joint office facilities. The Trust had, in prior years, set-aside approximately \$920,000 for such new office facilities. A total of \$200,000 of those previously set-aside funds had been approved as a loan to the parent for their share of the land purchase. It is anticipated that an additional \$750,000 in funds will be needed to be allocated from unrestricted assets for the remaining construction for the Trust's share of the project and for an additional loan to the parent for their share in the joint venture project.

Respectfully yours,

Middle Cities Risk Management Trust

Chief Operating Officer

Middle Cities Risk Management Trust

Statement of Net Assets

		June 30	
		2004	2003
Assets			
Cash and cash equivalents (Note 2)	\$	3,177,449	\$ 1,567,417
Investments (Note 2)		12,479,325	11,587,503
Accrued interest on investments		98,411	96,524
Receivables:			
Member		14,859	1,967
Affiliate (Note 6)		9,730	78,945
Excess insurance - Specific		8,942	-
Excess insurance - Aggregate		76,065	72,058
Other		31,423	39,029
Other assets		77,594	15,507
Restricted assets (Note 2)		38,785	69,548
Note receivable (Note 6)		200,000	-
Funds on deposit with insurance administrator		50,000	50,000
Investment in real estate joint venture (Note 8)		200,000	-
Property - Net (Note 3)		232,280	243,612
Total assets	\$	16,694,863	\$ 13,822,110

Liabilities and Net Assets

Liabilities

Accounts payable:			
Trade	\$	59,053	\$ 8,654
Affiliate (Note 6)		73,693	48,529
Dividends payable		190,890	-
Accrued service fees (Note 7)		60,748	30,894
Other accrued liabilities		23,684	19,081
Allowances for unsettled claims and claims incurred but not reported (Note 4):			
Due within one year		3,585,251	-
Due in more than one year		2,656,845	4,070,042
Total liabilities		6,650,164	4,177,200

Net Assets

Invested in capital assets		232,280	243,612
Unrestricted (Note 9)		9,812,419	9,401,298
Total net assets		10,044,699	9,644,910
Total liabilities and net assets	\$	16,694,863	\$ 13,822,110

Middle Cities Risk Management Trust

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2004	2003
Operating Revenue		
Member premium contributions	\$ 10,207,094	\$ 8,797,744
Interest and dividends	613,753	516,674
Change in fair value of investments (Note 2)	(139,647)	300,081
Recovery from third party	-	250,000
Total revenue	10,681,200	9,864,499
Operating Expenses		
Provision for claims:		
Payments	1,800,446	2,406,786
Addition to liabilities for unsettled claims and claims incurred but not reported (Note 4)	2,172,056	1,248,974
Excess insurance premiums	4,018,450	3,860,354
Service fees	474,248	433,297
Administrative expenses:		
Salary, wages, and fringe benefits	182,022	207,486
Taxes and insurance	34,064	33,604
Professional fees	68,814	49,015
Office expenses	288,386	215,071
Meetings and travel	36,405	28,004
STE program expense	1,806	8,427
Other	36,736	5,190
Total expenses	9,113,433	8,496,208
Operating Income	1,567,767	1,368,291
Distributions to Members	(1,167,978)	-
Net Assets - Beginning of year	9,644,910	8,276,619
Net Assets - End of year	<u>\$ 10,044,699</u>	<u>\$ 9,644,910</u>

Middle Cities Risk Management Trust

Statement of Cash Flows

	Year Ended June 30	
	2004	2003
Cash Flows from Operating Activities		
Cash received from members	\$ 10,009,100	\$ 8,755,476
Cash received from third-party recovery	-	250,000
Cash payments to suppliers for goods and services	(6,835,027)	(7,251,938)
Cash payments to members for distributions	(977,088)	(520,736)
Net cash provided by operating activities	2,196,985	1,232,802
Cash Flows from Investing Activities		
Interest and dividend income	613,753	516,674
Investment in joint venture	(200,000)	-
Proceeds from sale of investments	20,168,090	18,543,473
Purchase of investments	(21,199,559)	(20,609,876)
Net cash used in investing activities	(617,716)	(1,549,729)
Net Increase (Decrease) in Cash and Cash Equivalents	1,579,269	(316,927)
Cash and Cash Equivalents - Beginning of year	1,636,965	1,953,892
Cash and Cash Equivalents - End of year	\$ 3,216,234	\$ 1,636,965
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 3,177,449	\$ 1,567,417
Restricted assets	38,785	69,548
Total	\$ 3,216,234	\$ 1,636,965
Reconciliation of Operating Income to Net Cash from Operating Activities		
Excess of revenue over expenses	\$ 1,567,767	\$ 1,368,291
Adjustments to reconcile excess of revenue over expenses to net cash from operating activities:		
Depreciation	11,332	11,330
Interest and dividends	(613,753)	(516,674)
Change in fair value of investments	139,647	(300,081)
Distributions to members	(1,167,978)	-
Increase in assets:		
Accrued interest	(1,887)	(11,209)
Receivables	(149,020)	(19,302)
Other assets	(62,087)	(11,757)
Increase (decrease) in liabilities:		
Accounts payable	266,453	(516,859)
Allowance for unsettled claims and claims incurred but not reported	2,172,054	1,248,974
Accrued liabilities	34,457	(19,911)
Net cash provided by operating activities	\$ 2,196,985	\$ 1,232,802

Middle Cities Risk Management Trust

Notes to Financial Statements June 30, 2004 and 2003

Note 1 - Nature of Entity and Significant Accounting Policies

The Middle Cities Risk Management Trust (the "Trust") was established July 1, 1987 under the laws of the State of Michigan as a governmental group risk retention trust. Organizational activity relating to the formation of the Trust, including the selection of the Board of Directors, began in September 1986 under the sponsorship of the Middle Cities Education Association, the founding association. The Trust provides a single multiperil contract under which the members are covered for various types of risk including: property all risk; general and automobile liability; crime and boiler machinery; and loss and physical damage to automobiles, mobile equipment, EDP software, fine arts, and other miscellaneous property. Membership in the Trust is open to all school districts, selective district libraries, community colleges, and public school academies in the state of Michigan, of which there are 36 participating in the Trust. The basic financial statements as presented herein are an accumulation of the financial information from all open policy years.

The program's general objectives are to manage the Trust, provide risk management that consists of compensating members for losses, costs, and expenses related to the stated coverages, and utilize the funds contributed by members to defend any member of the pool against stated liability or loss. Membership in the Trust is considered after a formal request supported by a resolution from the Board of Education of the applying school district. Any member joining the Trust is required to remain a member for a minimum of one full year. A member may withdraw from the Trust by giving written notice at least 180 days prior to the end of that member's current term of membership.

Trust underwriting and rate-setting policies are established after consultation with excess insurance underwriters and the actuaries. Members are given 30 days' notice to make annual contributions to the Trust. The annual contributions are based on a final budget approved by the Board of Directors.

The Trust is using the accrual method of accounting. Contributions for premiums received from members, which are calculated by the Trust, are recorded as revenue. Claim losses, along with excess insurance premiums, service fees, and administrative costs, are recorded as expenses. The estimated total cost of claim losses (including future claim adjustment expenses) is accrued at present value based on the estimate of claims that ultimately will be filed for an insurance period. It is anticipated that to the extent the group's contributions finally are deemed to exceed claim losses and other costs, the excess amount will be refunded at some time in the future. If necessary, funding deficits in individual policy years will be recovered through additional member contributions assessed to members of that policy year. A member's contributions in excess of his or her claim losses and his or her share of other costs and expenses, including, under certain circumstances, a share of group claim losses, will be refunded upon Board approval.

Middle Cities Risk Management Trust

Notes to Financial Statements June 30, 2004 and 2003

Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

Cash Equivalents - The Trust considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Investments - Investments consist of U.S. government securities with maturities greater than three months and are recorded at fair value. Unrealized gains and losses are credited or charged to income.

Accounts Receivable - Trade accounts receivable are stated at net invoice amounts. Collectibility of balances is reviewed periodically. Any amounts deemed to be uncollectible are written off at that time. No allowance for bad debts is recorded because management considers all accounts receivable to be collectible.

Property - Property is recorded at cost, less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of depreciable assets. Costs of maintenance and repairs are charged to expense when incurred.

Federal Income Tax Status - The Trust has received a determination from the Internal Revenue Service that its income is exempt from taxation under Internal Revenue Code Section 115. Accordingly, no provision has been made for taxes on income.

Contribution Deficiency - Anticipated investment income is considered in determining if a contribution deficiency exists.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates related to allowances for unsettled claims and claims incurred but not reported are described in Note 4.

Accounting Change

GASB Statement No. 34 - Effective July 1, 2003, Middle Cities Risk Management Trust implemented the provisions of Governmental Accounting Standards Board Statement No. 34 (GASB No. 34), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

Middle Cities Risk Management Trust

Notes to Financial Statements June 30, 2004 and 2003

Note 2 - Deposits and Investments

The Trust's deposits and investments at June 30, 2004 and 2003 are included on the balance sheet under the following classifications:

	Balance Sheet Classification			
	Cash and Cash Equivalents	Restricted Assets	Investments	Total
2004				
Deposits	\$ 5	\$ 38,785	\$ -	\$ 38,790
Investments	3,177,444	-	12,479,325	15,656,769
Total	<u>\$ 3,177,449</u>	<u>\$ 38,785</u>	<u>\$ 12,479,325</u>	<u>\$ 15,695,559</u>
2003				
Deposits	\$ 324,785	\$ 69,548	\$ -	\$ 394,333
Investments	1,242,632	-	11,587,503	12,830,135
Total	<u>\$ 1,567,417</u>	<u>\$ 69,548</u>	<u>\$ 11,587,503</u>	<u>\$ 13,224,468</u>

Deposits - The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$108,451 and \$527,345 on June 30, 2004 and 2003, respectively. Of these amounts, \$108,451 and \$125,994 was covered by federal depository insurance and \$0 and \$401,351 was uninsured and uncollateralized at June 30, 2004 and 2003, respectively.

Investments - The Trust's investments are categorized below to give an indication of the level of risk assumed by the entity. Risk Category I includes those investments that meet any one of the following criteria:

- Insured
- Registered
- Held by the Trust or its agent

Middle Cities Risk Management Trust

Notes to Financial Statements June 30, 2004 and 2003

Note 2 - Deposits and Investments (Continued)

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Trust's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the Trust's name

2004	Category			Carrying Amount (Fair Value)
	1	2	3	
U.S. government securities	<u>\$ 12,479,325</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 12,479,325
Money market funds				<u>3,177,444</u>
Total				<u>\$ 15,656,769</u>
2003				
U.S. government securities	<u>\$ 11,587,503</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 11,587,503
Money market funds				<u>1,242,632</u>
Total				<u>\$ 12,830,135</u>

Money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The money market funds represent bank investment pools that are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

Middle Cities Risk Management Trust

Notes to Financial Statements June 30, 2004 and 2003

Note 2 - Deposits and Investments (Continued)

The Trust's investment earnings are as follows:

	2004	2003
Interest and dividends	\$ 613,753	\$ 516,674
Realized gain (loss) on sale of investments	<u>(68,533)</u>	<u>74,465</u>
Total	545,220	591,139
Unrealized appreciation (depreciation) in fair value of investments	<u>(71,114)</u>	<u>225,616</u>
Total investment earnings	<u>\$ 474,106</u>	<u>\$ 816,755</u>

Note 3 - Property

Cost of property and depreciable lives are summarized as follows:

	2004	2003	Depreciable Life - Years
Buildings	\$ 324,218	\$ 324,218	31.5
Building improvements	<u>21,370</u>	<u>21,370</u>	10-15
Total cost	345,588	345,588	
Less accumulated depreciation	<u>113,308</u>	<u>101,976</u>	
Net carrying amount	<u>\$ 232,280</u>	<u>\$ 243,612</u>	

Note 4 - Allowances for Unsettled Claims and Claims Incurred but Not Reported

As discussed in Note 1, the Trust establishes a liability for both reported and unreported claims that includes estimates of both future losses and related claim adjustment expenses.

Middle Cities Risk Management Trust

Notes to Financial Statements June 30, 2004 and 2003

Note 4 - Allowances for Unsettled Claims and Claims Incurred but Not Reported (Continued)

At June 30, 2004 and 2003, the estimates are as follows:

	<u>2004</u>	<u>2003</u>
Claims filed at June 30 that remain unsettled as of that date (estimated by insurance service provider)	\$ 2,855,120	\$ 2,367,321
Estimate of claims incurred prior to June 30, but not reported as of that date, that are expected to be filed in the future (based on the 90th percentile of expected losses)	4,148,977	3,769,984
Less portion to be paid by excess insurance carrier	<u>(669,210)</u>	<u>(1,935,279)</u>
Net undiscounted reserves	6,334,887	4,202,026
Less effect of discount	<u>(92,791)</u>	<u>(131,984)</u>
Total	<u>\$ 6,242,096</u>	<u>\$ 4,070,042</u>

For the years ended June 30, 2004 and 2003, the estimates of the claims incurred but not reported as of those dates were actuarially determined and are based on the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors. The reserves for unsettled claims and claims incurred but not reported are presented at present value using a discount rate of 1 percent for 2004 and 2 percent for 2003 and a 90 percent contingency margin confidence level. Although management believes that the provision for unpaid claims is adequate, no assurance can be given that the ultimate settlement of these liabilities may not be greater or less than such estimates. Any future adjustments to these amounts will affect the reported results of future periods.

Middle Cities Risk Management Trust

Notes to Financial Statements June 30, 2004 and 2003

Note 4 - Allowances for Unsettled Claims and Claims Incurred but Not Reported (Continued)

The following table represents changes in the unpaid claims for the Trust for the years ended June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Unpaid claims and claims adjustment expenses - Beginning of fiscal year	\$ 4,070,042	\$ 2,821,068
Incurred claims and claims adjustment expenses:		
Provisions for insured events of the current fiscal year	4,308,671	4,497,298
Change in provision for insured events of prior fiscal years	<u>929,898</u>	<u>1,309,050</u>
Total incurred claims and claims adjustment expenses	5,238,569	5,806,348
Payments:		
Claims and claims adjustment expenses attributable to insured events of the current fiscal year	995,956	689,726
Claims and claims adjustment expenses attributable to insured events of prior fiscal years	<u>804,490</u>	<u>1,717,060</u>
Total payments	1,800,446	2,406,786
Decrease in amount to be paid by excess insurance carrier	<u>(1,266,069)</u>	<u>(2,150,588)</u>
Unpaid claims and claims adjustment expenses - End of fiscal year	<u>\$ 6,242,096</u>	<u>\$ 4,070,042</u>

Incurred claims relating to prior years increased during 2004 and 2003 due to claims settling for amounts different from those originally estimated.

Middle Cities Risk Management Trust

Notes to Financial Statements June 30, 2004 and 2003

Note 5 - Insurance Coverage

The Trust has acquired excess liability insurance coverage for both specific claims and aggregate claims paid by the Trust. The specific insurance policy will cover payments for any specific claims in excess of the amounts shown below, up to the maximum coverage shown below. Under the aggregate policy, the insurance carrier will pay for all claims paid in excess of the Loss Fund as shown below. Upon exhaustion of the Loss Fund, the excess insurance carrier becomes the primary insurer to the extent of the coverage provided in the contract as specified below:

Accident Date by Insurance Period	Deductible	Specific Occurrence		Aggregate Reinsurance		
		In Excess of	Maximum Coverage	Loss Fund	Maximum Coverage	
Policy year 16:						
General and auto liability	\$ -	\$ 500,000	\$ 5,000,000	***	* Statutory	
Damage to insured's property, mobile equipment, EDP software, and fine arts	1,000	250,000	600,000,000	*	Statutory	
Theft, robbery, and forgery	1,000	250,000	100,000	*	**	
Employee fidelity	1,000	250,000	200,000	*	**	
Boiler and machinery	1,000	-	50,000,000	*	**	
Policy year 17:						
General and auto liability	-	600,000	5,000,000	***	* Statutory	
Damage to insured's property, mobile equipment, EDP software, and fine arts	1,000	500,000	600,000,000	*	Statutory	
Theft, robbery, and forgery	1,000	500,000	600,000,000	*	**	
Employee fidelity	1,000	500,000	-	*	**	
Boiler and machinery	1,000	1,000	50,000,000	*	**	

* The maximum exposure to the Trust for any combination of the above types of claims is as follows:

** Liability reverts back to the school district after the specific limit is reached.

*** Certain school districts have purchased additional coverage for general and auto liability.

Middle Cities Risk Management Trust

Notes to Financial Statements June 30, 2004 and 2003

Note 5 - Insurance Coverage (Continued)

Years Ended June 30	Amount
2004	\$ 5,040,000
2003	4,000,000
2002	2,414,650
2001	2,400,000
2000	2,265,409
1999	2,184,383
1998	2,114,000
1997	2,114,000
1996	2,262,000
1995	2,230,000
1994	2,231,500
1993	2,341,167
1992	2,400,000
1991	2,925,000
1990	2,905,000
1989	3,000,000
1988	3,250,000

Note 6 - Related Party Transactions

The Middle Cities Education Association, an affiliated organization, performs various administrative services and pays certain expenses on behalf of the Trust. Expenses incurred by the Trust for these services totaled approximately \$404,000 and \$401,000 for the years ended June 30, 2004 and 2003, respectively. Included in these amounts are \$213,071 and \$169,852 of management fees for the years ended June 30, 2004 and 2003, respectively. The Trust had funds payable to the affiliated organization totaling \$73,693 and \$48,529 at June 30, 2004 and 2003, respectively.

Middle Cities Risk Management Trust

Notes to Financial Statements June 30, 2004 and 2003

Note 6 - Related Party Transactions (Continued)

Note Receivable - The Trust issued a note receivable to the affiliated organization in the amount of \$200,000 to be repaid as follows:

2005	\$	3,114
2006		3,263
2007		3,420
2008		3,585
2009		3,756
2010 and thereafter		<u>182,862</u>
Total	\$	<u>200,000</u>

The Middle Cities Workers' Compensation Fund, an affiliated organization, reimburses the Trust for certain administrative costs. The total amount of expenses incurred was approximately \$54,400 and \$64,200 for the years ended June 30, 2004 and 2003, respectively. Affiliate receivables at June 30, 2004 and 2003 totaled \$9,730 and \$78,945, respectively.

Note 7 - Contingencies

Under the current service contract with the claims administrator, additional fees, which are based on the number of claims filed, could be assessed. Management's best estimate of additional fees to be charged is \$60,748 and \$30,894 at June 30, 2004 and 2003, respectively. These amounts are recorded in the financial statements.

Note 8 - Joint Venture

In January 2004, the Trust entered into a joint venture with Middle Cities Education Association (MCEA), a related party, and The North Central Association/Commission on Accreditation and School Improvement (NCACASI) for the purpose of developing joint office facilities within the greater Lansing, Michigan geographical area. Each member of the joint venture has initially contributed \$200,000 in exchange for a one-third interest in the venture. Each member will be contributing additional monies as the project develops.

Middle Cities Risk Management Trust


Notes to Financial Statements June 30, 2004 and 2003

Note 9 - Uses of Net Assets

The Trust has set aside equity for the cost of its building, which is included in unrestricted members' equity, in the amount of \$510,513 as of June 30, 2004. There were no contributions during the years ended June 30, 2004 and 2003. These net assets by fund year are as follows at June 30, 2004:

	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>	<u>1991/92</u>	<u>1992/93</u>	<u>1993/94</u>	<u>1994/95</u>	<u>Total</u>
Designated net assets - July 1, 2003	\$ 415,136	\$ 37,876	\$ 41,063	\$ 118,685	\$ 66,057	\$ 163,238	\$ 49,880	\$ 28,201	\$ 920,136
Contribution to joint venture (Note 8)	(90,240)	(8,240)	(8,920)	(25,800)	(14,360)	(35,480)	(10,840)	(6,120)	(200,000)
Professional fees	(4,343)	(396)	(429)	(1,241)	(691)	(1,707)	(522)	(294)	(9,623)
Loan to related party (Note 6)	<u>(90,240)</u>	<u>(8,240)</u>	<u>(8,920)</u>	<u>(25,800)</u>	<u>(14,360)</u>	<u>(35,480)</u>	<u>(10,840)</u>	<u>(6,120)</u>	<u>(200,000)</u>
Designated net assets - June 30, 2004	<u>\$ 230,313</u>	<u>\$ 21,000</u>	<u>\$ 22,794</u>	<u>\$ 65,844</u>	<u>\$ 36,646</u>	<u>\$ 90,571</u>	<u>\$ 27,678</u>	<u>\$ 15,667</u>	<u>\$ 510,513</u>

To the Board of Directors
Middle Cities Risk Management Trust



We have audited the financial statements of Middle Cities Risk Management Trust for the years ended June 30, 2004 and 2003. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on pages 21-26 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Such information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

July 16, 2004

Middle Cities Risk Management Trust

Required Supplementary Information Schedule of Claims Information for All Lines of Coverages

Claims Development Information

The table on page 22 illustrates how the Trust's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Trust as of the end of each of the last 10 years. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
- (2) This line shows each fiscal year's other operating costs of the Trust, including overhead and claims expense not allocable to individual claims.
- (3) This line shows the Trust's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section of 10 rows shows the cumulative amounts paid as of the end of successive years for each policy year.
- (5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
- (6) This section of 10 rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known.
- (7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought.

As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years. The computations include discounting for present value and a 90 percent confidence level for the contingency margin. A part of the annual change in estimated claims will be an increase attributable to accretion in the present value computation. That amount is not shown separately.

Middle Cities Risk Management Trust

Required Supplementary Information Schedule of Claims Information for All Lines of Coverages (Continued)

Fiscal Year Ended June 30	1995	1996	1997*	1998	1999	2000	2001	2002	2003	2004
(1) Required contributions and investment revenue:										
Earned			\$ 6,030,097	\$ 6,336,322	\$ 5,958,952	\$ 6,172,866	\$ 6,670,587	\$ 6,431,001	\$ 9,864,499	\$ 10,681,200
Ceded			2,107,265	1,903,348	1,957,357	2,016,585	2,190,980	2,483,456	3,860,354	4,018,450
Net earned	\$ 3,454,020	\$ 4,015,911	3,922,832	4,432,974	4,001,595	4,156,281	4,479,607	3,947,545	6,004,145	6,662,750
(2) Unallocated expenses	789,340	904,659	931,498	927,988	886,852	1,032,795	1,028,282	987,171	980,094	1,122,481
Policy Year Ended June 30										
(3) Estimated incurred claims and expenses -										
End of policy year:										
Incurred			1,918,584	2,581,890	3,765,511	4,714,434	4,323,262	3,494,559	4,497,298	4,308,671
Ceded			-	700,652	1,636,484	2,480,844	2,006,147	1,178,782	743,343	-
	1,977,072	2,110,538	1,918,584	1,881,238	2,129,027	2,233,590	2,317,115	2,315,777	3,753,955	4,308,671
(4) Paid (cumulative) as of:										
End of policy year	328,579	650,061	512,262	468,817	758,038	1,459,516	996,877	525,609	689,726	995,956
One year later	455,486	1,379,987	1,048,076	971,469	1,809,030	2,055,245	1,590,533	1,465,310	1,322,288	-
Two years later	1,759,338	1,702,488	1,157,342	1,112,876	1,935,835	2,265,409	2,413,364	1,608,375	-	-
Three years later	1,984,242	1,732,103	1,342,894	1,638,497	2,113,063	2,265,358	2,400,000	-	-	-
Four years later	2,044,145	1,745,126	1,417,600	1,697,815	2,075,592	2,265,409	-	-	-	-
Five years later	2,082,434	1,744,494	1,401,002	1,700,697	2,104,087	-	-	-	-	-
Six years later	2,082,664	1,477,094	1,401,930	1,697,375	-	-	-	-	-	-
Seven years later	2,082,664	1,744,094	1,401,930	-	-	-	-	-	-	-
Eight years later	2,082,664	1,744,094	-	-	-	-	-	-	-	-
Nine years later	2,086,354	-	-	-	-	-	-	-	-	-
(5) Re-estimated ceded claims and expenses	1,122,095	-	-	99,911	26,298	1,929,739	1,531,526	-	188,000	-
(6) Re-estimated incurred claims and expenses:										
End of policy year	1,977,072	2,110,538	1,918,584	1,881,238	2,129,027	2,233,590	2,317,115	2,315,777	3,753,955	4,308,673
One year later	1,982,309	2,144,205	1,974,884	1,918,706	2,154,480	2,250,826	2,296,459	2,386,928	3,580,393	-
Two years later	2,166,500	2,189,644	1,780,874	1,626,867	2,163,153	2,265,409	2,413,337	2,166,278	-	-
Three years later	2,195,279	1,990,055	1,911,564	1,826,083	2,193,967	2,265,358	2,400,000	-	-	-
Four years later	2,212,191	1,967,175	1,602,834	1,766,912	2,174,812	2,265,409	-	-	-	-
Five years later	2,127,015	1,767,221	1,453,689	1,700,697	2,152,286	-	-	-	-	-
Six years later	2,103,696	1,750,949	1,401,930	1,716,666	-	-	-	-	-	-
Seven years later	2,090,709	1,744,094	1,410,129	-	-	-	-	-	-	-
Eight years later	2,082,664	1,748,653	-	-	-	-	-	-	-	-
Nine years later	2,119,479	-	-	-	-	-	-	-	-	-
(7) Increase (decrease) in estimated incurred claims and expenses - End of policy year	142,407	(361,885)	(508,455)	(164,572)	23,259	31,819	82,885	(149,499)	(173,562)	-

* Effective for 1997, the Trust prospectively adopted the presentation format prescribed by Statement No. 30 of the Governmental Accounting Standards Board (GASB No. 30), *Risk Financing Omnibus*. In accordance with GASB No. 30, ceded claims information has been separately stated.

Middle Cities Risk Management Trust

Statement of Operations and Changes in Members' Equity by Policy Year From Inception through June 30, 2004

	Policy Year											
	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
Revenue												
Member premium contributions	\$ 7,662,346	\$ 6,308,090	\$ 6,590,971	\$ 6,164,504	\$ 5,774,981	\$ 5,762,010	\$ 5,537,664	\$ 5,420,133	\$ 5,497,593	\$ 5,196,165	\$ 5,010,634	\$ 5,104,322
Investment earnings	1,280,756	801,447	834,930	1,287,344	910,010	1,375,270	995,532	615,961	750,718	868,876	764,485	308,161
Recovery from third party	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	8,943,102	7,109,537	7,425,901	7,451,848	6,684,991	7,137,280	6,533,196	6,036,094	6,248,311	6,065,041	5,775,119	5,412,483
Expenses												
Provision for claims:												
Payments	1,344,111	1,211,510	2,076,851	1,709,465	1,990,713	1,713,928	1,708,918	2,086,354	1,744,094	1,401,930	1,697,375	2,104,087
Addition to liabilities for unsettled claims and claims incurred but not reported	-	-	-	-	-	-	-	33,125	4,559	8,199	19,291	48,196
Excess insurance premiums	4,465,358	3,839,354	3,395,107	2,651,787	2,620,166	2,499,122	2,656,154	2,383,411	2,387,899	2,098,906	1,903,348	1,957,357
Service fees	148,633	228,755	345,704	331,667	332,209	312,511	346,512	367,905	477,042	393,161	405,820	441,779
Short-rate reimbursement	99,234	-	-	-	-	-	-	-	-	-	-	-
Administrative expenses:												
Salary, wages, and fringe benefits	71,262	69,688	129,119	161,861	189,512	193,637	216,065	168,431	144,059	186,953	188,704	187,485
Taxes and insurance	70,694	60,749	55,155	28,486	15,177	16,165	19,242	15,511	12,893	14,122	12,132	28,556
Professional fees	5,409	21,739	60,502	46,366	31,931	35,400	34,800	29,510	37,254	39,746	37,961	27,931
Office expenses	95,237	72,944	103,057	95,162	108,736	113,843	156,494	152,779	165,499	148,784	175,535	143,615
Organizational costs	41,853	-	-	-	-	-	-	-	-	-	-	-
Meetings and travel	-	-	30,730	37,478	47,538	41,972	58,232	40,013	38,550	46,329	48,666	41,045
STE program expense	-	-	-	33,604	11,095	6,110	7,958	5,203	19,095	15,885	9,139	10,771
Other	95,476	37,021	33,251	13,148	19,769	14,439	11,263	11,900	36,782	48,326	31,859	14,553
Total expenses	6,437,267	5,541,760	6,229,476	5,109,024	5,366,846	4,947,127	5,215,638	5,294,142	5,067,726	4,402,341	4,529,830	5,005,375
Operating Income	2,505,835	1,567,777	1,196,425	2,342,824	1,318,145	2,190,153	1,317,558	741,952	1,180,585	1,662,700	1,245,289	407,108
Distributions to Members	(2,090,699)	(1,568,244)	(1,198,449)	(2,183,865)	(1,129,376)	(1,540,232)	(498,841)	(295,965)	(248,338)	(148,856)	(41,348)	-
Equity Transfer	-	467	2,024	-	-	-	-	-	-	(2,491)	-	-
Member Contribution	-	37,876	41,063	118,685	66,057	163,238	49,880	28,201	-	-	-	-
Members' Equity	\$ 415,136	\$ 37,876	\$ 41,063	\$ 277,644	\$ 254,826	\$ 813,159	\$ 868,597	\$ 474,188	\$ 932,247	\$ 1,511,353	\$ 1,203,941	\$ 407,108

Middle Cities Risk Management Trust

Statement of Operations and Changes in Members' Equity by Policy Year (Continued) From Inception through June 30, 2004

	Policy Year					
	1999/00	2000/01	2001/02	2002/03	2003/04	Total
Revenue						
Member premium contributions	\$ 5,130,890	\$ 5,538,400	\$ 5,940,710	\$ 8,797,744	\$ 10,207,094	\$ 105,644,251
Investment earnings	154,381	417,623	265,247	350,204	217,363	12,198,308
Recovery from third party	250,000	-	-	-	-	250,000
Total revenue	5,535,271	5,956,023	6,205,957	9,147,948	10,424,457	118,092,559
Expenses						
Provision for claims:						
Payments	2,265,409	2,400,000	1,608,375	1,322,288	995,956	29,381,364
Addition to liabilities for unsettled claims and claims incurred but not reported	-	-	557,902	2,258,109	3,312,717	6,242,098
Excess insurance premiums	2,039,835	2,190,980	2,450,153	3,893,657	4,018,450	47,451,044
Service fees	531,825	499,747	424,788	476,335	478,278	6,542,671
Short-rate reimbursement	-	-	-	-	-	99,234
Administrative expenses:						
Salary, wages, and fringe benefits	162,945	170,350	212,613	207,486	182,022	2,842,192
Taxes and insurance	27,079	21,862	32,929	33,604	34,064	498,420
Professional fees	60,915	54,718	45,196	49,015	68,814	687,207
Office expenses	145,055	157,176	211,915	215,071	288,386	2,549,288
Organizational costs	-	-	-	-	-	41,853
Meetings and travel	45,716	47,903	35,366	28,004	36,405	623,947
STE program expense	9,926	3,600	493	8,427	1,806	143,112
Other	49,861	43,529	3,114	5,190	36,736	506,217
Total expenses	5,338,566	5,589,865	5,582,844	8,497,186	9,453,634	97,608,647
Operating Income	196,705	366,158	623,113	650,762	970,823	20,483,912
Distributions to Members	-	-	-	-	-	(10,944,213)
Equity Transfer	-	-	(33,805)	33,805	-	-
Member Contribution	-	-	-	-	-	505,000
Members' Equity	\$ 196,705	\$ 366,158	\$ 589,308	\$ 684,567	\$ 970,823	\$ 10,044,699

Middle Cities Risk Management Trust

Statement of Operations and Changes in Members' Equity by Policy Year Year Ended June 30, 2004

	Policy Year											
	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
Revenue												
Member premium contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment earnings	-	-	-	5,589	6,213	19,267	19,969	12,150	22,430	34,795	27,337	10,423
Total revenue	-	-	-	5,589	6,213	19,267	19,969	12,150	22,430	34,795	27,337	10,423
Expenses												
Provision for claims:												
Payments	-	-	-	-	-	-	-	3,690	-	-	(3,322)	28,495
Changes to liabilities for unsettled claims and claims incurred but not reported	-	-	-	-	-	-	-	33,125	4,559	8,199	19,291	(50,987)
Excess insurance premiums	-	-	-	-	-	-	-	-	-	-	-	-
Service fees	-	-	-	-	-	-	-	-	-	-	-	-
Administrative expenses:												
Salary, wages, and fringe benefits	-	-	-	-	-	-	-	-	-	-	-	-
Taxes and insurance	-	-	-	-	-	-	-	-	-	-	-	-
Professional fees	-	-	-	-	-	-	-	-	-	-	-	-
Office expenses	-	-	-	-	-	-	-	-	-	-	-	-
Meetings and travel	-	-	-	-	-	-	-	-	-	-	-	-
STE program expense	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Total expenses	-	-	-	-	-	-	-	36,815	4,559	8,199	15,969	(22,492)
Operating Income (Loss)	-	-	-	5,589	6,213	19,267	19,969	(24,665)	17,871	26,596	11,368	32,915
Distributions to												
Members	-	(834)	(872)	(153,746)	(150,283)	(325,081)	(145,357)	(114,038)	(135,657)	(100,762)	(41,348)	-
Equity Transfer	-	467	2,024	-	-	-	-	-	-	(2,491)	-	-
Members' Equity -												
Beginning of year	415,136	38,243	39,911	425,801	398,896	1,118,973	993,985	612,891	1,050,033	1,588,010	1,233,921	374,193
Members' Equity - End of year	\$ 415,136	\$ 37,876	\$ 41,063	\$ 277,644	\$ 254,826	\$ 813,159	\$ 868,597	\$ 474,188	\$ 932,247	\$ 1,511,353	\$ 1,203,941	\$ 407,108

Middle Cities Risk Management Trust

Statement of Operations and Changes in Members' Equity by Policy Year (Continued) Year Ended June 30, 2004

	Policy Year					
	1999/00	2000/01	2001/02	2002/03	2003/04	Total
Revenue						
Member premium contributions	\$ -	\$ -	\$ -	\$ -	\$ 10,207,094	\$ 10,207,094
Investment earnings	(1,741)	6,693	26,261	67,357	217,363	474,106
Total revenue	(1,741)	6,693	26,261	67,357	10,424,457	10,681,200
Expenses						
Provision for claims:						
Payments	-	-	143,065	632,562	995,956	1,800,446
Changes to liabilities for unsettled claims and claims incurred but not reported	-	-	(348,728)	(806,120)	3,312,717	2,172,056
Excess insurance premiums	-	-	-	-	4,018,450	4,018,450
Service fees	4,100	-	-	(8,130)	478,278	474,248
Administrative expenses:						
Salary, wages, and fringe benefits	-	-	-	-	182,022	182,022
Taxes and insurance	-	-	-	-	34,064	34,064
Professional fees	-	-	-	-	68,814	68,814
Office expenses	-	-	-	-	288,386	288,386
Meetings and travel	-	-	-	-	36,405	36,405
STE program expense	-	-	-	-	1,806	1,806
Other	-	-	-	-	36,736	36,736
Total expenses	4,100	-	(205,663)	(181,688)	9,453,634	9,113,433
Operating Income (Loss)	(5,841)	6,693	231,924	249,045	970,823	1,567,767
Distributions to						
Members	-	-	-	-	-	(1,167,978)
Equity Transfer	-	-	-	-	-	-
Members' Equity -						
Beginning of year	202,546	359,465	357,384	435,522	-	9,644,910
Members' Equity - End of year	\$ 196,705	\$ 366,158	\$ 589,308	\$ 684,567	\$ 970,823	\$ 10,044,699